

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AGR-20 EB-11 COME-00 TRSE-00 OMB-01

CIAE-00 DODE-00 INR-10 NSAE-00 PA-04 RSC-01 USIA-15

PRS-01 SPC-03 SS-20 STR-08 NSC-10 DRC-01 /131 W

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R 251620Z OCT 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC 1521

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMCONSUL MILAN

AMEMBASSY PARIS

USMISSION OECD PARIS

UNCLAS ROME 11700

E.O. 11652: N/A

TAGS: EAGR, IT

SUBJ: FARM PRICES, ITALY

SECSTATE PASS AGRICULTURE

REF.: ROME 10316; ROME 10208

1. ITALIAN PRESS REPORTED ON COUNCIL OF AGRICULTURE MINISTERS MEETING IN BRUSSELS REGARDING DEVALUATION OF "GREEN LIRA" AND ITS EFFECT ON ITALIAN AGRICULTURE.

2. THE PROPOSED DEVALUATION, CONSIDERED CERTAIN TO BE APPROVED BY THE COUNCIL OF MINISTERS, WOULD INCREASE INTERVENTION PRICES EXPRESSED IN LIRE IN TWO STAGES. THERE WOULD BE AN IMMEDIATE UNCLASSIFIED

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INCREASE IN THESE PRICES OF 4 PERCENT, FOLLOWED BY AN ADDITIONAL

INCREASE OF 3.5 PERCENT AT THE BEGINNING OF THE NEXT MARKETING YEAR OF EACH PRODUCT. EXCEPTIONALLY, SUGAR INTERVENTION PRICE WOULD IMMEDIATELY RISE FULL 7.5 PERCENT.

3. MEASURES RECOGNIZED BY PRESS AS BEING AIMED AT APPEASING AND HELPING DAIRY FARMERS. HOWEVER, IT IS DOUBTFUL SUCH AN INCREASE WOULD HAVE MUCH PRACTICAL EFFECT, FOR SEVERAL REASONS. FIRST, SINCE ITALIAN MARKET PRICES ALREADY SUPERIOR TO EEC INTERVENTION PRICES, FARMERS WILL NOT BENEFIT FROM HIGHER GUARANTEED MINIMUM. SECOND, PRESSURE OF FRENCH AND GERMAN MILK EXPORTS ON ITALIAN MARKET WILL EASE BECAUSE COMPENSATORY PAYMENTS WILL BE REDUCED, BUT NOT BY THE FULL MARGIN. AND THIRD, REAL PROBLEM FOR ITALIAN DAIRY FARMERS IS STRUCTURAL, INVOLVING HIGH COSTS FOR LAND AND COWS AS WELL AS POOR MARKETING SYSTEM.

4. PSYCHOLOGICAL EFFECT OF DEVALUED "GREEN LIRA" COULD BE INFLATIONARY. SINCE IT IS NOT CLEAR WHAT CONTROLS WILL BE CONTINUED AFTER END OF FREEZE (OCTOBER 31), DIFFICULT TO PREDICT INFLUENCE ON AGRICULTURAL PRICES AT RETAIL LEVEL.

5. AS REPORTED IN REFTELS, AGMIN FERRARI-AGGRADI UNDER GREAT PRESSURE TO HELP FARMERS WHO HAVE RECENTLY ENGAGED IN SHARP PROTESTS. HE HAD CALLED FOR FORMAL DEVALUATION OF ITALIAN LIRA AND ITS RE-ENTRY INTO EC MONETARY SNAKE, BUT APPARENTLY MET RESISTANCE FROM TREASURY MINISTER AND REACHED THIS COMPROMISE.

6. PRESS REPORTS ALSO INDICATE THAT THERE IS SOME SPECULATION IN BRUSSELS THAT THIS DECISION IN AGRICULTURAL SECTOR FORESHADOWS AN IMMINENT RETURN OF LIRA TO JOINT EC FLOAT. HOWEVER, BASED ON CONTACTS WITH BANK OF ITALY, WE DO NOT BELIEVE THAT ITALIANS ARE PREPARED TO FIX A PARITY FOR LIRA AND REJOIN EUROPEAN SNAKE IN NEAR FUTURE. ALTHOUGH ANTI-INFLATION EFFORTS ARE DEMONSTRATING ENCOURAGING PROGRESS, INDUSTRIAL PRODUCTION CONTINUES TO IMPROVE, AND LIRA HAS BEEN RELATIVELY STABLE DURING RECENT MONTHS, GOI IS UNLIKELY TO TAKE ON ADDITIONAL BURDEN OF MAINTAINING LIRA IN JOINT EC FLOAT UNTIL DOMESTIC ECONOMIC SITUATION SHOWS FURTHER SOLID IMPROVEMENT AND EUROPEAN MONETARY COOPERATION FUND IS PROVIDED WITH ADEQUATE RESOURCES.

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